

MILFORD MUNICIPAL UTILITIES
(A Component Unit of the City of Milford, Iowa)

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2013

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MILFORD MUNICIPAL UTILITIES
MILFORD, IOWA

JUNE 30, 2013

OFFICIALS

After January 1, 2013

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Tom Cooper	Trustee (Chairman)	December 31, 2015
James Studer	Trustee (Vice Chairman)	December 31, 2013
Keith Wurtz	Trustee	December 31, 2014
Lisa Duffy	Trustee	December 31, 2017
Wanda Nelson	Trustee	December 31, 2018

Before January 2013

Tom Cooper	Trustee (Chairman)	December 31, 2015
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
James Studer	Trustee	December 31, 2013
Keith Wurtz	Trustee	December 31, 2014
Lisa Duffy	Trustee	December 31, 2017

Eric Stoll	General Manager
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Paula Nordblad	Office Manager / Board Secretary
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

Report on the Financial Statements

We have audited the accompanying financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Milford Municipal Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the electric and water enterprise funds of Milford Municipal Utilities at June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the electric and water enterprise funds of Milford Municipal Utilities, a component unit of the City of Milford, and do not purport to, and do not, present fairly the financial position of the City of Milford as of June 30, 2013 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Utilities' June 30, 2012 financial statements, and our report dated October 19, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it had been derived.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 8 and 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2013 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milford Municipal Utilities' internal control over financial reporting and compliance.

Wintner, Stave & Co., LLP

September 17, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Milford Municipal Utilities (MMU) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2012 - 2013 FINANCIAL HIGHLIGHTS

- MMU's operating revenues increased 9.75%, or \$348,267, from fiscal 2012 to fiscal 2013.
- Operating expenses increased by \$150,706 in fiscal 2013 from fiscal 2012.
- The MMU's net position increased 5.94%, or \$585,895, during 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the MMU's financial activities.

Financial statements for each enterprise fund report information about MMU's operations.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to MMU's budget for the year and a schedule of retiree health plan funding progress.

The Supplementary Information in Schedules 1 and 2 provides detailed information about the usage levels of each utility.

REPORTING MMU'S FINANCIAL ACTIVITIES

Financial Statements

Milford Municipal Utilities utilizes proprietary funds to account for MMU's enterprise funds and to report business type activities. MMU maintains two funds to provide separate information for the electric and water funds, which are considered to be major funds of MMU.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in combined net position for the electric and water funds.

Net Position at Year Ended June 30,		
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 3,423,513	\$ 2,555,941
Capital assets - net of depreciation	<u>11,759,550</u>	<u>11,440,826</u>
Total assets	<u>15,183,063</u>	<u>13,996,767</u>
Long-term debt outstanding	4,347,154	3,843,523
Other liabilities	<u>383,341</u>	<u>286,571</u>
Total liabilities	<u>4,730,495</u>	<u>4,130,094</u>
Net position:		
Net investment in capital assets	8,051,015	7,597,303
Restricted	354,240	316,885
Unrestricted	<u>2,047,313</u>	<u>1,952,485</u>
Total net position	<u>\$10,452,568</u>	<u>\$ 9,866,673</u>

Changes in Net Position for the Year Ended June 30,		
	<u>2013</u>	<u>2012</u>
Revenues:		
Total operating revenues	\$ 3,921,171	\$ 3,572,904
General revenues:		
Interest and other income	<u>10,950</u>	<u>13,291</u>
Total revenues	<u>3,932,121</u>	<u>3,586,195</u>
Program expenses:		
Business type activities	<u>3,346,226</u>	<u>3,254,285</u>
Total expenses	<u>3,346,226</u>	<u>3,254,285</u>
Change in net position	585,895	331,910
Net position - beginning of year	<u>9,866,673</u>	<u>9,534,763</u>
Net position - end of year	<u>\$10,452,568</u>	<u>\$ 9,866,673</u>

INDIVIDUAL MAJOR FUND ANALYSIS

- Electric Fund revenues showed an increase of \$244,613 due to a 5% rate increase and an extended heating season. The Electric Fund operating expenses increased \$92,208, attributable to the increase in expense associated with Neal 4, purchased power from NIMECA, and vehicle maintenance. The ending fund balance was \$7,259,864, an increase of \$416,647 from last year.
- Water Fund revenues increased by \$103,654 due to a 10% rate increase and the drought. Operating expenses increased \$58,498, which can be attributed to maintenance, subcontractor expense, and chemicals as compared to the prior year. The ending fund balance was \$3,192,704, an increase of \$169,248 from the prior year.

BUDGETARY HIGHLIGHTS

MMU's disbursements for business type activities did not exceed the budgeted limit for 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, MMU had approximately \$11.8 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions, net of depreciation) of \$318,724 or 2.79% as compared with last year. Depreciation charges totaled \$503,722 for the fiscal year 2013. Total accumulated depreciation was \$10,632,159 at June 30, 2013. See Note 3 to the financial statements for more information about MMU's capital assets.

LONG-TERM DEBT/LIABILITIES

At June 30, 2013, MMU had \$4,347,154 in revenue bonds outstanding compared to \$3,843,523 at June 30, 2012. Additional information about MMU's long-term debt, including the net OPEB liability, is presented in Notes 4 and 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

In order to comply with EPA mandates, MMU has entered into a contract to install catalytic converters on three generators at a cost of \$176,630. In addition, MMU's portion of the cost to install scrubbers on the stacks at Neal #4 is expected to be \$900,000.

MMU has begun to investigate the impact that an infestation of the invasive zebra mussel will have on our water source along with other water treatment improvements by employing an engineer to create a long-term master plan. The first step in the process to limit zebra mussel attaching to the water intake is a pilot study with the IDNR and Macro Tech's copper ion system. Other improvements in the ten-year plan include raw water intake improvements, clarifier improvements, filter waste handling improvements, chemical feed and finished water metering improvements, ASR cycle testing, and three water main projects.

Consistent with the need to invest for the future, MMU joined with other cities and utilities in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight many years ago to invest in renewable energy. In 1976, MMU power supplies were once again getting tight and MMU needed to invest in an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997, MMU added 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and emergency power use. Once again, MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has a share in the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa. MMU also has a share in the Crosswinds Wind Farm south of Ruthven, Iowa. This amounts to a combined total of 40% for renewable energy. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Even with the additional wind resources, MMU will still need a reliable baseload or intermediate resource to cover our expected load growth, replace existing aging power supplies, and to cover periods when the wind doesn't blow. MMU is now exploring other options to ensure a safe, reliable backup to wind generation. This includes possible agreements with other power suppliers and the installation of natural gas powered turbines.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Ave., Milford, Iowa 51351.

BASIC FINANCIAL STATEMENTS

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

ASSETS

	Electric Fund	Water Fund	Total 2013	Total 2012
CURRENT ASSETS:				
Cash and cash equivalents:				
Undesignated	\$ 436,348	\$ 79,731	\$ 516,079	\$ 463,313
Board designated:				
Improvement and extension	63,009	99,309	162,318	152,389
Vehicle and equipment funds	202,582	47,838	250,420	182,802
Fuel oil fund	12,822		12,822	12,787
Community development fund	91,685		91,685	81,448
Total cash and cash equivalents	806,446	226,878	1,033,324	892,739
Accounts receivable	324,830	135,895	460,725	425,689
Inventory	515,185	36,132	551,317	518,377
Prepaid expenses	54,540	40,546	95,086	111,621
Other receivables		2,826	2,826	629
TOTAL CURRENT ASSETS	1,701,001	442,277	2,143,278	1,949,055
NONCURRENT ASSETS:				
Other assets:				
Purchased service rights - at cost	13,470		13,470	13,470
CTS - acquisition costs (net)				6,231
Bond issue cost (net)	2,926		2,926	3,876
Total other assets	16,396		16,396	23,577
Restricted assets:				
Consumers' deposit fund	50,264		50,264	59,464
Revenue bond sinking fund	38,099	26,709	64,808	64,630
Principal and interest reserve		116,372	116,372	116,053
CTS - improvement fund	289,432		289,432	252,255
Loan proceeds for future capital improvements	638,620		638,620	
Emission allowances	17,706		17,706	17,669
Whelan #2 Reserve	42,664		42,664	28,131
Neal #4	11,530		11,530	24,885
Deposit for Interconnection WAPA Study	150		150	
Engine maintenance	32,293		32,293	20,222
Total restricted assets	1,120,758	143,081	1,263,839	583,309
TOTAL NONCURRENT ASSETS	1,137,154	143,081	1,280,235	606,886
CAPITAL ASSETS:				
Capital assets	15,001,821	7,389,888	22,391,709	21,570,368
Accumulated depreciation	(7,313,869)	(3,318,290)	(10,632,159)	(10,129,542)
TOTAL CAPITAL ASSETS - NET	7,687,952	4,071,598	11,759,550	11,440,826
 TOTAL ASSETS	 \$10,526,107	 \$ 4,656,956	 \$15,183,063	 \$13,996,767

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION - Continued
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

LIABILITIES AND NET POSITION

	Electric Fund	Water Fund	Total 2013	Total 2012
CURRENT LIABILITIES:				
Accounts payable	\$ 200,348	\$ 40,908	\$ 241,256	\$ 169,960
Accrued employee benefits	3,748	2,532	6,280	(832)
Accrued payroll	26,571	17,254	43,825	31,951
Accrued payroll taxes	1,257	954	2,211	2,865
Accrued sales tax	5,125	3,465	8,590	9,018
Accrued property tax	14,870		14,870	15,969
Accrued wheeling	8,661		8,661	8,625
Consumers' deposits	34,891	6,753	41,644	40,557
Current portion long-term debt	<u>383,629</u>	<u>241,072</u>	<u>624,701</u>	<u>580,703</u>
TOTAL CURRENT LIABILITIES	<u>679,100</u>	<u>312,938</u>	<u>992,038</u>	<u>858,816</u>
LONG-TERM DEBT:				
Revenue notes payable	2,961,650	1,385,504	4,347,154	3,843,523
Less current portion above	(383,629)	(241,072)	(624,701)	(580,703)
Net OPEB liability	<u>9,122</u>	<u>6,882</u>	<u>16,004</u>	<u>8,458</u>
TOTAL LONG-TERM DEBT	<u>2,587,143</u>	<u>1,151,314</u>	<u>3,738,457</u>	<u>3,271,278</u>
TOTAL LIABILITIES	<u>3,266,243</u>	<u>1,464,252</u>	<u>4,730,495</u>	<u>4,130,094</u>
NET POSITION:				
Net investment in capital assets	5,364,921	2,686,094	8,051,015	7,597,303
Restricted for:				
Debt service	38,099	26,709	64,808	64,630
Capital projects	289,432		289,432	252,255
Unrestricted	<u>1,567,412</u>	<u>479,901</u>	<u>2,047,313</u>	<u>1,952,485</u>
TOTAL NET POSITION	<u>7,259,864</u>	<u>3,192,704</u>	<u>10,452,568</u>	<u>9,866,673</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$10,526,107</u>	<u>\$ 4,656,956</u>	<u>\$15,183,063</u>	<u>\$13,996,767</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	Electric Fund	Water Fund	Total 2013	Total 2012
OPERATING REVENUES:				
Residential	\$ 1,343,719	\$ 437,106	\$ 1,780,825	\$ 1,553,458
Commercial	537,619	423,469	961,088	872,825
Demand	495,262		495,262	477,144
Tank water sales		2,360	2,360	709
Meter sales		17,965	17,965	11,781
Public authorities	94,036		94,036	75,800
Water department	37,615		37,615	29,606
Neal #4 credits	261,853		261,853	284,227
Diesel credits	233,421		233,421	226,843
Consumer penalties	6,206	1,395	7,601	5,658
Miscellaneous income	23,286	5,859	29,145	34,853
TOTAL OPERATING REVENUES	<u>3,033,017</u>	<u>888,154</u>	<u>3,921,171</u>	<u>3,572,904</u>
OPERATING EXPENSES:				
Direct costs	1,595,472	156,545	1,752,017	1,602,053
Operating expenses	319,668	204,194	523,862	471,639
Administrative expenses	625,509	315,278	940,787	992,268
TOTAL OPERATING EXPENSES	<u>2,540,649</u>	<u>676,017</u>	<u>3,216,666</u>	<u>3,065,960</u>
OPERATING INCOME	<u>492,368</u>	<u>212,137</u>	<u>704,505</u>	<u>506,944</u>
NON-OPERATING INCOME (EXPENSE):				
Interest income	5,122	781	5,903	7,135
Other income	3,634	1,413	5,047	6,156
Interest expense	(84,477)	(45,083)	(129,560)	(188,325)
TOTAL NON-OPERATING EXPENSES - NET	<u>(75,721)</u>	<u>(42,889)</u>	<u>(118,610)</u>	<u>(175,034)</u>
CHANGE IN NET POSITION	416,647	169,248	585,895	331,910
NET POSITION - BEGINNING OF YEAR	<u>6,843,217</u>	<u>3,023,456</u>	<u>9,866,673</u>	<u>9,534,763</u>
NET POSITION - END OF YEAR	<u>\$ 7,259,864</u>	<u>\$ 3,192,704</u>	<u>\$10,452,568</u>	<u>\$ 9,866,673</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	Electric Fund	Water Fund	Total 2013	Total 2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$2,993,234	\$ 894,155	\$3,887,389	\$3,563,655
Cash paid to suppliers	(1,995,093)	(276,958)	(2,272,051)	(2,444,096)
Cash paid to employees	(241,969)	(156,242)	(398,211)	(381,203)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>756,172</u>	<u>460,955</u>	<u>1,217,127</u>	<u>738,356</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(736,675)	(85,771)	(822,446)	(1,302,458)
Contributions received from developers				1,245,433
Revenue bond principal repayment	(332,268)	(225,165)	(557,433)	(1,822,084)
Revenue bond proceeds	1,061,064		1,061,064	1,211,100
Interest paid	(84,477)	(45,083)	(129,560)	(202,798)
Restricted bond proceeds received	(638,620)		(638,620)	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(730,976)</u>	<u>(356,019)</u>	<u>(1,086,995)</u>	<u>(870,807)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest reinvested	(105)	(392)	(497)	(7,279)
Interest received from investments	5,122	781	5,903	7,135
Other income	3,634	1,413	5,047	6,156
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,651</u>	<u>1,802</u>	<u>10,453</u>	<u>6,012</u>
NET INCREASE (DECREASE) IN CASH	33,847	106,738	140,585	(126,439)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>772,599</u>	<u>120,140</u>	<u>892,739</u>	<u>1,019,178</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 806,446</u>	<u>\$ 226,878</u>	<u>\$1,033,324</u>	<u>\$ 892,739</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total 2013</u>	<u>Total 2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 492,368	\$ 212,137	\$ 704,505	\$ 506,944
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	321,906	181,816	503,722	523,609
Amortization	6,231		6,231	6,798
(Increase) decrease in:				
Accounts receivable	(43,234)	8,198	(35,036)	(56,841)
Inventory	(35,853)	2,913	(32,940)	32,354
Prepaid expenses	(4,653)	21,188	16,535	(58,330)
Other receivables		(2,197)	(2,197)	46,435
Consumer deposits	2,598	6,602	9,200	6,230
Bond issuance costs	950		950	949
CTS improvement fund	(37,177)		(37,177)	(99,016)
Sewer fund - district and city				2,755
Deposit on WAPA study	(150)		(150)	
Whelon #2 reserves	(14,533)		(14,533)	(2,960)
Emission allowances	(37)		(37)	(597)
Neal #4	13,355		13,355	(24,885)
Engine maintenance	(12,071)		(12,071)	4,891
Increase (decrease) in:				
Accounts payable	52,077	19,219	71,296	(137,813)
Accrued employee benefits	3,273	3,839	7,112	(29,458)
Accrued payroll taxes	(484)	(170)	(654)	(2,356)
Accrued payroll	7,670	4,204	11,874	10,328
Accrued sales tax	(155)	(273)	(428)	434
Accrued property tax	(1,099)		(1,099)	1,715
Accrued wheeling	36		36	21
Accrued OPEB	4,301	3,245	7,546	8,458
Consumer deposits	<u>853</u>	<u>234</u>	<u>1,087</u>	<u>(1,309)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 756,172</u>	<u>\$ 460,955</u>	<u>\$1,217,127</u>	<u>\$ 738,356</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Milford Municipal Utilities (Utilities) is a separate and distinct city utility chartered under Iowa code Section 388. The financial statements of the Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford, Iowa. Milford Municipal Utilities is governed by a five-member Board of Trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore financial information concerning the Utilities is not included.

For financial reporting purposes, Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

Financial Statements

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. Individual enterprise funds are reported as separate columns in the financial statements as follows.

Electric Fund - The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition

Revenues earned are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2013.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost and set forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling, and transportation has been capitalized.

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest of \$26,491 on qualifying assets acquired during the year ended June 30, 2013 was capitalized in the Electric Fund.

Replacements and betterments of capital assets are included in capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	20 - 50
Equipment	7 - 20
Distribution System	20 - 67

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Assets

Common Transmission System (CTS) acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value.

Loan costs related to issued capital notes are being amortized on a straight-line basis over 7 years, which approximates the effective interest method, and are presented at the net value.

Current Liabilities

Accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Restricted Assets

Funds set aside for payment of the Utilities' revenue notes, common transmission system improvements and other accounts are classified as restricted assets since their use is restricted by applicable note indentures and contractual agreements.

Net Position

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Utilities' financial statements for the year ended June 30, 2012 from which the summarized information was derived.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Management's Review

The Utilities has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utilities' deposits in banks at June 30, 2013, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utilities.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

	Electric Plant			
<u>Electric Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	\$ 58,654			\$ 58,654
Construction in progress		\$ 643,417	\$ 557,207	86,210
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>58,654</u>	<u>643,417</u>	<u>557,207</u>	<u>144,864</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings	408,546			408,546
Machinery and equipment	796,659	4,173		800,832
Accessory electric equipment	3,366,415			3,366,415
Neal #4	1,425,711	552,998	1,105	1,977,604
Common transmission system	1,861,223	53,908		1,915,131
Distribution Plant:				
Distribution facilities	5,527,910	26,780		5,554,690
Street lights and signal systems	271,083	2,139		273,222
General Plant:				
Transportation equipment	412,843			412,843
Other equipment	<u>137,207</u>	<u>10,467</u>		<u>147,674</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	14,207,597	650,465	1,105	14,856,957
Less accumulated depreciation	<u>6,993,068</u>	<u>321,906</u>	<u>1,105</u>	<u>7,313,869</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>7,214,529</u>	<u>328,559</u>		<u>7,543,088</u>
TOTAL CAPITAL ASSETS - NET	\$ 7,273,183	\$ 971,976	\$ 557,207	\$ 7,687,952

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

3. CAPITAL ASSETS - Continued

Capital assets activity for the year ended June 30, 2013 was as follows:

	Water Utility Plant			
<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	\$ 58,144			\$ 58,144
Construction in progress		\$ 46,000		46,000
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>58,144</u>	<u>46,000</u>		<u>104,144</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings	3,237,261			3,237,261
Intakes	102,696			102,696
Equipment	1,137,951			1,137,951
Mains	1,564,595	6,836		1,571,431
Wells	198,130			198,130
Storage and Distribution Plant:				
Towers	481,619			481,619
Mains, hydrants, and service ..	219,740			219,740
Meters	252,531	15,470		268,001
General Plant:				
Tools and work equipment	<u>51,450</u>	<u>17,465</u>		<u>68,915</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	7,245,973	39,771		7,285,744
Less accumulated depreciation	<u>3,136,474</u>	<u>181,816</u>		<u>3,318,290</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>4,109,499</u>	<u>(142,045)</u>		<u>3,967,454</u>
TOTAL CAPITAL ASSETS - NET	\$ 4,167,643	\$ (96,045)		\$ 4,071,598

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

4. REVENUE NOTES PAYABLE

A summary of the changes in revenue notes for the year ended June 30, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Electric Fund:					
Series 2008 revenue notes	\$1,412,620		\$ 122,258	\$1,290,362	\$137,223
Series 2009 revenue notes	725,485		170,656	554,829	177,334
Series 2011 revenue notes	94,749	\$1,061,064	39,354	1,116,459	69,072
Total electric revenue notes	<u>2,232,854</u>	<u>1,061,064</u>	<u>332,268</u>	<u>2,961,650</u>	<u>383,629</u>
Water Fund:					
Series 2003 revenue notes	569,364		84,217	485,147	96,889
Series 2005 revenue notes	1,041,305		140,948	900,357	144,183
Total water revenue notes	<u>1,610,669</u>		<u>225,165</u>	<u>1,385,504</u>	<u>241,072</u>
 TOTAL REVENUE NOTES	 <u>\$3,843,523</u>	 <u>\$1,061,064</u>	 <u>\$ 557,433</u>	 <u>\$4,347,154</u>	 <u>\$624,701</u>

The resolutions concerning the issuance of the above revenue notes all include requirements for the Utilities to maintain Sinking and Reserve Funds. United Community Bank, the sole holder of the notes, has waived these fund requirements.

Electric Fund

During the year ended June 30, 2008, the Utilities issued electric revenue notes (Series 2008) in the amount of \$1,900,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to January 1, 2013 and January 1, 2018, respectively plus 75 basis points. The interest rate cannot adjust more than 1.5%. The rate adjusted from 4.95% to 3.45% in January 2013. The notes require monthly payments of \$14,965, including interest and mature on November 1, 2021.

During the year ended June 30, 2010, the Utilities issued electric revenue notes (Series 2009) in the amount of \$1,200,000 for the construction costs related to improvements and extension to the Municipal Electric Utility and to refund the Series 2007 Revenue Notes. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2014 plus 100 basis points. The rate cannot drop below 4.00% or go above 5.50% and currently is 4.00%. The notes require monthly payments of \$16,381, including interest, and mature on July 1, 2016.

During the year ended June 30, 2011, the Utilities issued electric revenue notes (Series 2011) in the amount of \$2,243,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes allowed the Utilities to request advances, which accrued interest of 3.75%, and required interest only payments until November 1, 2012. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2016 and July 1, 2021, respectively, plus 125 basis points. The interest rate cannot drop below 3.75% and cannot go above 4.75% in years 5-10 and 5.75% in years 11-15. The notes require monthly payments of \$9,147, including interest, and mature on March 1, 2025.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

4. REVENUE NOTES PAYABLE - Continued

Electric Fund - Continued

The Series 2008, 2009, and 2011 notes are secured by future revenues of the Electric Utility. Annual principal and interest payments on the notes are expected to require less than 52% of net revenues. The total principal and interest remaining to be paid on the notes is \$3,483,252. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$416,745 and \$820,505, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2013, the Electric Utility was in compliance with the revenue note provisions.

A summary of the Electric Fund's annual principal and interest requirements to maturity by year is as follows:

	<u>Series 2008 Revenue Notes</u>		<u>Series 2009 Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 137,223	\$ 42,361	\$ 177,334	\$ 19,235
2015	142,033	37,551	184,845	11,724
2016	147,012	32,573	192,375	4,260
2017	152,164	27,420	275	2
2018	157,498	22,087		
2019 - 2023	<u>554,432</u>	<u>32,652</u>		
Total	<u>\$1,290,362</u>	<u>\$194,644</u>	<u>\$ 554,829</u>	<u>\$ 35,221</u>

	<u>Series 2011 Revenue Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 69,072	\$ 40,688	\$ 383,629	\$102,284
2015	71,708	38,053	398,586	87,328
2016	74,443	35,317	413,829	72,150
2017	77,283	32,477	229,722	59,899
2018	80,232	29,529	237,730	51,616
2019 - 2023	449,477	99,326	1,003,910	131,978
2024 - 2028	<u>294,244</u>	<u>16,347</u>	<u>294,244</u>	<u>16,347</u>
Total	<u>\$1,116,459</u>	<u>\$291,737</u>	<u>\$2,961,650</u>	<u>\$521,602</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

4. REVENUE NOTES PAYABLE - Continued

Water Fund

On June 24, 2003, the Utilities issued a water revenue note (Series 2003), in the amount of \$1,200,000. The note accrues a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2008 and July 1, 2013, respectively, plus 100 basis points. The rate cannot go above 5.50%. The rate adjusted from 4.34% to 2.43% on July 1, 2013. The note requires monthly payments of \$8,966, including interest, and mature on May 1, 2018.

On May 25, 2005 the Utilities issued water revenue notes (Series 2005) in the amount of \$1,800,000. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2010 and July 1, 2015, respectively, plus 25 basis points. The rate adjusted from 4.25% to 2.21% on July 1, 2010. The notes require monthly payments of \$13,552, including interest, and mature on June 1, 2019.

The Series 2003 and Series 2005 notes are secured by future net revenues of the Water Utility. Annual principal and interest payments on the notes are expected to require less than 70% of net revenues. The total principal and interest remaining to be paid on the notes is \$1,475,633. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$270,248 and \$393,953, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2013, the Water Utility was in compliance with the revenue note provisions.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

4. REVENUE NOTES PAYABLE - Continued

Water Fund - Continued

A summary of the Water Fund's annual principal and interest requirements to maturity by year is as follows:

	<u>Series 2003 Revenue Notes</u>		<u>Series 2005 Revenue Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 96,889	\$ 10,715	\$ 144,183	\$ 18,443	\$ 241,072	\$ 29,158
2015	99,269	8,334	147,402	15,224	246,671	23,558
2016	101,709	5,895	150,693	11,934	252,402	17,829
2017	104,208	3,395	154,057	8,569	258,265	11,964
2018	83,072	876	157,496	5,130	240,568	6,006
2019	<u> </u>	<u> </u>	<u>146,526</u>	<u>1,615</u>	<u>146,526</u>	<u>1,615</u>
Total	<u>\$ 485,147</u>	<u>\$ 29,215</u>	<u>\$ 900,357</u>	<u>\$ 60,915</u>	<u>\$1,385,504</u>	<u>\$ 90,130</u>

5. PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary, and the Utilities are required to contribute 8.67% of covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$34,921, \$33,861, and \$26,946, respectively, equal to the required contributions for each year.

6. RATES

The Electric Utility increased user rates for all consumption by 5% per year for 2012, 2013, and 2014.

The Water Utility increased user rates for all consumption 10% per year for 2012, 2013, and 2014.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

7. LEASES

Under a joint ownership agreement with other utilities, the Electric Utility has a 0.347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$1,425,711 included in utility plant in service with \$1,220,614 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of revenues, expenses, and changes in net position.

The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The lease of the Neal 4 plant is a long-term commitment based on capacity, and the revenues from such leases are included in operating income. The amount is determined by a formula based on usage and totaled \$257,660 for 2013.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description. The Utilities operate a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family. There are seven active members in the Plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the Utilities. The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utilities' annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

The following table shows the components of the Utilities' annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan, and changes in the Utilities' net OPEB obligation:

	<u>2013</u>
Annual required contribution	\$ 8,067
Interest on net OPEB obligation	171
Adjustment to annual required contribution	<u>(692)</u>
Annual OPEB cost	7,546
Contributions made	<u>-</u>
Increase in net OPEB obligation	7,546
Net OPEB obligation - beginning of year	<u>8,458</u>
Net OPEB obligation - end of year	<u>\$ 16,004</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the Utilities made no contributions to the medical plan. Plan members eligible for benefits contributed 100% of the premium cost.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 8,458	0%	\$ 8,458
2013	\$ 7,546	0%	\$ 16,004

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$40,712, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$40,712. The covered payroll (annual payroll of active employees covered by the plan) was \$417,631 and the ratio of the UAAL to cover payroll was 9.75%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions included a 2.5% interest discount rate. The projected annual medical trend rate is 6%, with an inflation rate of 0% assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from IPERS and applying the termination factors used by IPERS. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

9. COMPENSATED ABSENCES

Employees of the Utilities accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred and is computed based on rates of pay in effect at June 30, 2013. The Utilities' approximate liability for earned vacation and compensatory time payable to employees at June 30, 2013 is \$35,599.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement, or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

10. RELATED PARTY TRANSACTIONS

The Utilities had business transactions between the Utilities and a Utilities official totaling \$3,891 during the year ended June 30, 2013.

11. RISK MANAGEMENT

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2013

12. COMMITMENTS

As a .347% owner of George Neal Generating Station No. 4, the Electric Utility has an approximate total commitment of \$900,000 for its part of a construction contract totaling \$254,927,009 for a Baghouse Scrubber. The Electric Utility's portion of the expenses to date of \$575,123 is included in capital assets.

In order to comply with EPA mandates, The Electric Utility has entered into a contract to install catalytic convertors on three generators for \$176,630. Costs of \$86,210 have been incurred on the project and are included in Capital Assets.

REQUIRED SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Actual</u>	<u>Original/ Final Budget</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Charges for services	\$ 3,921,171	\$ 3,844,241	\$ 76,930
Non-operating	<u>10,950</u>	<u>12,231</u>	<u>(1,281)</u>
TOTAL REVENUES	<u>3,932,121</u>	<u>3,856,472</u>	<u>75,649</u>
EXPENSES:			
Electric	2,625,126	2,852,777	227,651
Water	<u>721,100</u>	<u>755,134</u>	<u>34,034</u>
TOTAL EXPENSES	<u>3,346,226</u>	<u>3,607,911</u>	<u>261,685</u>
NET CHANGE IN NET POSITION	585,895	248,561	<u>\$337,334</u>
NET POSITION AT BEGINNING OF YEAR	<u>9,866,673</u>	<u>9,866,673</u>	
NET POSITION AT END OF YEAR	<u>\$10,452,568</u>	<u>\$10,115,234</u>	

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the Utilities.

In accordance with the Code of Iowa, the Milford Municipal Utilities annually adopts a budget following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. All Utilities' disbursements are included in business-type activities function. During the year ended June 30, 2013, disbursements did not exceed the amounts budgeted.

MILFORD MUNICIPAL UTILITIES
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	July 1, 2011	0	\$42,060	\$42,060	0%	\$406,729	10.34%
2013	July 1, 2011	0	\$40,712	\$40,712	0%	\$417,631	9.75%

See Note 8 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
DIRECT COSTS:		
Distribution maintenance	\$ 3,027	\$ 10,620
Equipment maintenance	14,744	13,711
Neal #4 charges - coal, oil, power generator	403,035	340,771
Purchased power	6,613	6,030
Purchased power - NIMECA	758,512	711,898
Purchased power - WAPA	392,182	392,781
Wheeling	<u>17,359</u>	<u>17,269</u>
TOTAL DIRECT COSTS	<u>1,595,472</u>	<u>1,493,080</u>
OPERATING EXPENSES:		
Salaries	253,940	242,716
Small tools and supplies	25,390	27,501
Sub-contractor	11,966	9,157
Vehicle expense	28,251	15,342
Miscellaneous operating expenses	<u>121</u>	<u>214</u>
TOTAL OPERATING EXPENSES	<u>319,668</u>	<u>294,930</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND - Continued
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ADMINISTRATIVE EXPENSES:		
Amortization	\$ 6,231	\$ 6,798
Bad debts	5,095	1,726
Building maintenance - office	13,170	8,546
Building maintenance - mowing	3,357	4,500
Community development	62,554	58,340
Computer repairs and maintenance	8,051	11,774
Computer supplies and programs	8,388	7,122
Depreciation	321,906	331,134
Director fees	2,745	3,008
Dues and subscriptions	5,593	5,359
Education and safety	4,761	4,454
Employee benefits	41,680	44,352
Insurance - general	37,852	37,204
Laundry and uniforms	560	601
Legal and professional	16,649	13,440
Maintenance - office equipment	707	195
Miscellaneous administrative expenses	690	
Office supplies	4,066	5,206
Payroll taxes - FICA and IPERS	39,534	39,078
Postage	5,101	5,512
Property taxes	13,782	17,695
Energy efficiency	16,988	33,049
Supplies	98	324
Sales tax paid		17,058
Telephone	3,562	3,044
Travel	849	289
Utilities and sanitation	1,774	1,411
Inventory adjustment	(234)	(788)
TOTAL ADMINISTRATIVE EXPENSES	<u>625,509</u>	<u>660,431</u>
 TOTAL	 <u>\$2,540,649</u>	 <u>\$2,448,441</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
DIRECT COSTS:		
Distribution maintenance	\$ 24,976	\$ 24,277
Equipment maintenance	7,598	5,547
Lab	9,807	11,168
Plant maintenance	35,709	5,355
Product - chlorine and fluoride	40,950	30,724
Purchased power	<u>37,505</u>	<u>31,902</u>
TOTAL DIRECT COSTS	<u>156,545</u>	<u>108,973</u>
OPERATING EXPENSES:		
Salaries	163,691	157,273
Small tools and supplies	6,250	3,087
Sub-contractor	32,152	10,326
Vehicle expense	2,069	6,016
Miscellaneous operating expenses	<u>32</u>	<u>7</u>
TOTAL OPERATING EXPENSES	<u>204,194</u>	<u>176,709</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND - Continued
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ADMINISTRATIVE EXPENSES:		
Advertising		\$ 500
Bad debts	\$ 288	444
Building maintenance - mowing	2,955	
Community development	257	
Computer repairs and maintenance	4,679	4,924
Computer supplies and programs	4,567	3,791
Depreciation	181,816	192,475
Director fees	2,673	3,277
Dues and subscriptions	1,324	1,014
Education and safety	2,608	5,282
Employee benefits	40,057	34,900
Insurance - general	25,105	21,177
Laundry and uniforms	428	1,470
Legal and professional	5,534	6,302
Maintenance - office equipment	353	195
Miscellaneous	1,280	980
Office supplies	3,665	5,197
Payroll taxes - FICA and IPERS	25,366	26,372
Postage	4,995	5,449
Supplies	86	28
Sales tax paid		10,245
Telephone	1,811	1,704
Travel	140	
Utilities and sanitation	6,978	5,542
Inventory adjustment	(1,687)	569
TOTAL ADMINISTRATIVE EXPENSES	<u>315,278</u>	<u>331,837</u>
 TOTAL	 <u>\$ 676,017</u>	 <u>\$ 617,519</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated September 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milford Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance that is described in Part II of the accompanying Schedule of Finding.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' Responses to Findings

Milford Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winter, Starnes & Co., LLP

September 17, 2013

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements

Internal Control Deficiency:

I-A-13 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting

II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted in the business type activities function.

II-B-13 Questionable Disbursements - No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-13 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.

II-D-13 Business Transactions - Business transactions between the Utilities and a Utilities' official are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Studer, Board Member, Owner of Excel Auto Body	Maintenance and repair	\$ 3,891

Recommendation - The transaction exceeds \$1,500 and may represent a conflict of interest. The Utility should consult legal counsel to determine the disposition of these matters.

Response - The Utilities' attorney will be asked to comment on this transaction.

Conclusion - Response accepted.

II-E-13 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-13 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

II-H-13 Revenue Notes - The Utilities has complied with the electric and water revenue note provisions or has received a waiver of the requirements from the holder of the notes.